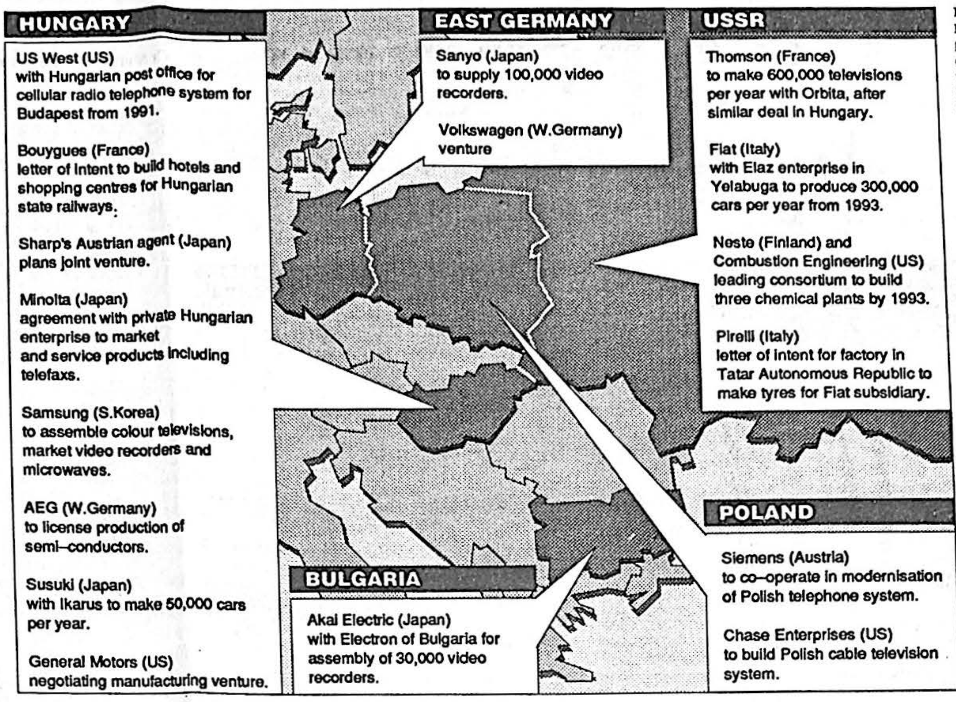
## Charles Leadbeater, Nick Garnett and Peter Marsh set their sights on the Eas




# Investing in the revolution

In the next few weeks Windsor in Berkshire will welcome a group of out-of-town businessmen. Led by a Russian admiral from the Soviet Ministry of Merchant Marine, they will visit the nearby training centre run by ICL, the computer company, for a crash course in business management.

The admiral and his colleagues are the top management team in ICL's recently established joint venture to assemble personal computers in the Soviet Union. The plant, in a refurbished former registry office on the outskirts of Leningrad, should start assembling computers in April.

It is just one of many joint ventures which have sprung up east of the Berlin Wall as western businessmen and East Germans have travelled in opposite directions, but with almost equal eagerness for the spoils which await.

If the Soviet Union is included, eastern Europe is a market of about 420m people, compared with the 324m of the European Community. There is substantial room for growth. The EC's gross domestic product in 1988 was $5,509bn (£3,318bn), compared with $1,420bn in the USSR and $473bn in the remainder of eastern Europe.

As Mr Godfrey Linnett, head of eastern European operations at Allied Lyons, the food and drink manufacturer, puts it: "People are crying out for good quality consumer goods. It should be easy to sell them."

Moreover, eastern corporate gems could be revealed after some dusting off with western management and technology.

Perkins, the engine manufacturer, is teaming up with a subsidiary of the Bulgarian company, Balkancar, one of the world's largest fork-lift truck manufacturers. The Weir group, the Glasgow-based engineering company, has recently agreed a deal to license technology from Litostroj, the Yugoslav company which is a world leader in water turbines for hydro-electric power stations.

Before the Second World War, German chemical plants east and west were owned by IG Farben, and retain some of the same characteristics.

Asea Brown Boveri (ABB), the Swedish-Swiss power engineering group, is well on the way to taking majority control of Zemech, the Polish turbine and generator maker, with the aim of welding it into its worldwide manufacturing network.

"If we did not do this we would feel that we were not supporting our target of becoming the world's lowest cost producer," says Mr Eberhard von Koerber, ABB's main board member responsible for eastern Europe.

Western capital is welcome, especially in areas like consumer goods and television manufacture, telecommunications and computers, although some deals may still fall foul of CoCom restrictions on high technology exports. Not far behind are ventures in cars, automotive components, construction of hotels and factories and chemicals.

In the short term there may be more opportunities for consumer goods imports, such as the 500 Nissan cars going to the Siberian miners, as governments attempt to satisfy long suppressed consumer demand. But in the long run, companies will need to go beyond importing and consider manufacturing joint ventures.

Mr Paul Whitwam, ICL manager for eastern Europe says: "We will have to provide a total service. In future they will not accept imports which just cream off the profit. They will want us to make a tangible contribution to the long-term health of their economies."

Mr Tony Downs, who is responsible for setting up Perkins' Bulgarian technical research centre in collaboration with the Varmo engineering company concurs: "We cannot skirmish on the edges – we have to get in there."

After licensing manufacture of its products for 20 years in Yugoslavia, Poland and Bulgaria, Perkins is considering manufacturing joint ventures.

Corporate eagerness to get into the east is no doubt justified. But just as eastern planners are learning new tricks, so western businessmen will have to discard their preconceptions.

The revolutions in eastern Europe may have been united by a yearning for democracy. But they are likely to produce quite diverse outcomes.

Yugoslavia and Poland have been open to the west for much longer than Bulgaria and Czechoslovakia. Revisionist communist rule in Hungary was very different from the Ceausescus' Romania. Neo-liberal Polish Thatcherites find few counterparts in Czechoslovakia and East Germany.

Mr Paul McMahon, a Hungarian specialist at Price Waterhouse, the accountants, says of the country: "A return to the previous system is unimaginable. But it will not necessarily become like our own system, elements of socialism will remain."

The economic bases also differ. Ironically, one advantage of Czechoslovakia and Romania's closure to the West is a relatively low debt burden. Debt service payments consume about 16 per cent of foreign earnings in Czechoslovakia and 27 per cent in Romania, compared with 45 per cent in Hungary and 43 per cent in Poland.

Nor have all taken the same approach to joint ventures. East Germany's Government said last Friday it might allow majority foreign stakes in joint ventures as exceptions to what it had planned would be a 49 per cent ceiling. But until the rules are clearer, investors may be inhibited.

The Czechoslovak joint-venture law is much more restrictive than the Polish or Hungarian statutes. Under section 11, joint-venture profits are taxed at 40 per cent and the operation has to contribute 50 per cent of its wage bill to a social security fund.

The upheavals have created their own problems. Mr Tom Hutchinson, the ICI board director responsible for eastern Europe says: "These economies will have a very tough winter, which could lead to a political backlash. Stable political institutions will need to develop to attract long term investment."

**'People are crying out for good quality consumer goods. It should be easy to sell them'**

Mr John Hood, managing director of the Weir group, which has also traded extensively in China, says: "In the old days you used to be able to deal with a single ministry like power or oil. Now everything is fragmenting, chains of command are confused and there is more political uncertainty about what people should do."

Imperial Chemical Industries has set up an office in Kiev, in the Ukraine, because purchasing decisions are becoming so decentralised its Moscow office cannot cope.

Most eastern European countries are heavily dependent on export earnings from their Comecon partners. About 80 per cent of Czechoslovak trade is with other "socialist countries," while 70 per cent of East Germany's exports go to eastern Europe. As Comecon becomes dislocated, so trade may falter and these economies could stagnate.

Joint ventures will still operate within a largely planned economies which can lead to contradictory pressures. Although ICL has a small Moscow sales force, which drums up some orders through cold calling potential customers, its joint venture's profit of £1m in the first year of operation was written into the plan.

Mr Whitwam says: "Planning does not mean you necessarily have long lead times. Something may be planned but the money may not be authorised. Once the money is there they want to move very quickly indeed."

All are agreed – companies have to make a long-term commitment. APV, the machinery maker, has taken five years to get its Bulgarian joint venture with Bio Invest, an organisation set up by the Bulgarian Government, running successfully.

Many British companies do not have the culture for this sort of long-term investment. A team from one large British company recently came back from two days of talks in Moscow with the chairman exasperated by the short-term difficulty of getting his profits out of the country.

In most joint ventures management is in the hands of the host ministry or company. Mr Tim Bloomfield, an eastern Europe specialist at Ernst and Young, the accountants, says: "It is important to get a local chairman with some clout and good contacts with the ministries."

This raises several troubling problems. Mr Whitwam says one of the most important factors is how comp
nies can protect their investm
given that they cannot sell the s
on a stock market if the ventur
ters, falls or is suddenly woun
Several joint venture compani
this meant they would never r
investment which could not
for within two years.

An equally pressing probl
repatriation of profits. Ho
profit earned in Hungarian
Polish zlotys be turned i
sterling or dollars? Th
Czechoslovak legal pr
allow koruna profits to

In spite of worsening
western businessmen
organisations are get
hard currency to pay
progress towards co
cies will be a key de
integrated these
become with the re

Poland is attemp
cial and black mar
Hungary has bee
but the official ra
already more clo
black market rate

But there is li
greatest divergen
many and the So
opening of the B
market rate fo
mark plummete
the official rate
with the D-Mark

This means m
engage in imag
ICL earns its p
venture by taki
export profits ea
pany's furnitu
which it is link

Indeed, accou
an obstacle in t
developing co
accounting. Bu
dealing in qu
prices. While M
and Young says
merely unfami
Price Waterhou
largely non-e
dent professio

Quality is a
ently a West
turing joint
Union found
plied with co
the quality o
had to be sh
many to be r

While there
willing to wo
some countri
on recruitmen
ply have to a
quality of wor

Some of thes
to be addresse
governments.
slovakia are pl
laws on joint
easier for comp
profits and sell i

But the climat
ment may chang
McMahon expects
ernment to be el
will reassess in
establish clearer H
In Poland there i
that the West Ge
may become so dom
to the economic an
Pomerania and Ea
held by Germany
world wars.

Finally even after
set up with techno
workers and suppli
work. Consider the
those in the Soviet Uni

A plethora of agree
signed. More are bei
very few are up and r
middle of last year,
1,000 registered joint v
operation. Accordin
estimates circulating in
the first 40 are in liqui